

NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

ROBERT "BOB" BURNS - Chairman
BOYD DUNN
SANDRA D. KENNEDY
JUSTIN OLSON
LEA MÁRQUEZ PETERSON

In the matter of:

RICHARD J. DARATONY, an unmarried
man, d/b/a HIGH DESERT NATURALS d/b/a)
HIGH DESERT NATURAL d/b/a DR.
RICHARD'S HIGH DESERT NATURALS,
AN ARIZONA LLC,

Respondent.

DOCKET NO. S-21134A-20-0388

**TEMPORARY ORDER TO CEASE AND
DESIST AND NOTICE OF
OPPORTUNITY FOR HEARING**

NOTICE: THIS ORDER IS EFFECTIVE IMMEDIATELY

EACH RESPONDENT HAS 20 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that Respondent Richard Daratony, doing business as "High Desert Naturals," "High Desert Natural," and "Dr. Richard's High Desert Naturals, an Arizona LLC," is engaging in or is about to engage in acts and practices that constitute violations of A.R.S. § 44-1801, *et seq.*, the Arizona Securities Act ("Securities Act") and that the public welfare requires immediate action.

I.

JURISDICTION

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.

RESPONDENTS

2. Richard Daratony (“Daratony”) was at all relevant times a resident of Arizona.

III.

FACTS

3. On or around November 14, 2020, Daratony published an advertisement titled “Time to invest in Cannabis, the largest possible grow in California” (“the Craigslist Advertisement”) on Craigslist.org, an online classifieds advertisement website.

4. Specifically, the Craigslist Advertisement was published in the “financial services” subsection of the Phoenix section of the website.

5. According to the Craigslist Advertisement:

- a) The investment was for purposes of growing and selling cannabis;
- b) The “[i]nvestment[s] are through loans, so as not to run into SEC issues”;
- c) “You [*sic*] ROI is 100% on your money per year. Years 2 to 6. Loans paid back in year 7”;
- d) “These loans are for passive income”; and
- e) The minimum size is \$1,000 per unit, and the maximum size is \$100,000 unless more complex paperwork is signed.

6. The Craigslist Advertisement instructed viewers to “Get the contract by emailing me.”

7. On December 10, 2020, an Arizona resident (“the Offeree”) responded via email to the Craigslist Advertisement to request additional information.

8. Between December 10, 2020, and December 15, 2020, Daratony and the Offeree exchanged emails in which Daratony represented to the Offeree that:

- a) He did not want his business to be taken over by venture capital firms, so he and his team decided to “open it up to the people”;

- b) The terms were \$1,000 minimum at 100% per year for 30 years, paid monthly after each harvest; and
- c) Payment of interest would begin after the first harvest in approximately May 2021.

9. Daratony also emailed the Offeree a sample “Business Loan Agreement” (“the Agreement”) between a “Lender” and “Dr. Richard’s High Desert Naturals, an Arizona LLC.”

10. Pursuant to the Agreement:

- a) The Lender would receive 100% interest per annum;
- b) Payments would begin 30 days after the sale of the first harvest;
- c) The term of the loan would be 30 years;
- d) The Lender is a creditor, not a business advisor or manager; and
- e) The Agreement is made pursuant to the laws of the state of Arizona.

11. The Agreement was drafted for execution by “Richard Daratony, DC” as managing member of “Dr. Richard’s High Desert Naturals, an Arizona LLC.”

12. “Dr. Richard’s High Desert Naturals, an Arizona LLC” is not an Arizona LLC and upon information and belief, it has not been organized in any other state.

13. Daratony also referred the Offeree to his website, HighDesertNatural.com (“the Website”).

14. The Website stated:

- a) “Your Investment will be in the largest flower / cannabis grows possible in California, up to 30,000 acres”;
- b) “All investments are made through loans, this way you are paid back, and make a great interest rate on your money, it is 100%, with bonuses, determined by management”; and
- c) “I am looking for many investors, for what will be the LARGEST grow in California up to 30,000 acres plus.”

15. Through the Website, Daratony made the following representations regarding the phases of the investment:

- “Phase 1; is the payback of your original investment”;
- “Phase 2; is a great return on your investment, for 30 years, at 100% per year. Loans will be in units, and each unit is \$1,000”; and
- “The minimum loan is \$1,000 per unit; you can lend on up to 100 units.”

16. On December 18, 2020, Daratony emailed the Offeree a revised version of the Agreement which included additional language clarifying that the “original loan amount” would be repaid during the sixth year, but the interest payments would continue for the full 30-year term.

IV.

VIOLATION OF A.R.S. § 44-1841

(Offer and Sale of Unregistered Securities)

17. From on or about November 14, 2020, Daratony has been offering or selling securities in the form of investment contracts and/or evidence of indebtedness within or from Arizona.

18. The securities referred to above are not registered pursuant to Articles 6 or 7 of the Securities Act.

19. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

20. Daratony is offering or selling securities within or from Arizona while not registered as a dealer or salesman pursuant to Article 9 of the Securities Act.

21. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

22. In connection with the offer or sale of securities within or from Arizona, Daratony is, directly or indirectly: (i) employing a device, scheme, or artifice to defraud; (ii) making untrue statements of material fact or omitting to state material facts that are necessary in order to make the statements made not misleading in light of the circumstances under which they are made; or (iii) engaging in transactions, practices, or courses of business that operate or would operate as a fraud or deceit upon offerees and investors. Daratony's conduct includes, but is not limited to, the following:

- a) Offering for sale an investment contract with, and evidence of indebtedness by, "Dr. Richard's High Desert Naturals, an Arizona LLC," an entity that does not exist;
- b) Falsely representing that Dr. Richard's High Desert Naturals is an Arizona LLC when no such entity has ever been organized in Arizona; and
- c) Falsely representing to the Offeree that structuring the Agreement as a loan could avoid "SEC issues."

23. This conduct violates A.R.S. § 44-1991.

VII.

TEMPORARY ORDER

Cease and Desist from Violating the Securities Act

THEREFORE, based on the above allegations, and because the Commission has determined that the public welfare requires immediate action,

IT IS ORDERED, pursuant to A.R.S. § 44-1972(C) and A.A.C. R14-4-307, that Daratony and his agents, servants, employees, successors, assigns, and those persons in active concert or participation with Respondent CEASE AND DESIST from any violations of the Securities Act.

1 IT IS FURTHER ORDERED that this Temporary Order to Cease and Desist shall remain in
2 effect for 180 days unless sooner vacated, modified, or made permanent by the Commission.

3 IT IS FURTHER ORDERED that if a request for hearing is made, this Temporary Order
4 shall remain effective from the date a hearing is requested until a decision is entered unless
5 otherwise ordered by the Commission.

6 IT IS FURTHER ORDERED that this Order shall be effective immediately.

7 **VIII.**

8 **REQUESTED RELIEF**

9 The Division requests that the Commission grant the following relief:

- 10 1. Order Respondent to permanently cease and desist from violating the Securities Act
11 pursuant to A.R.S. § 44-2032;
- 12 2. Order Respondent to pay the state of Arizona administrative penalties of up to five
13 thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
- 14 3. Order any other relief that the Commission deems appropriate.

15 **IX.**

16 **HEARING OPPORTUNITY**

17 Each Respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. Rule 14-
18 4-307. **If a Respondent requests a hearing, the requesting Respondent must also answer this**
19 **Temporary Order and Notice.** A request for hearing must be in writing and received by the
20 Commission within 20 days after service of this Temporary Order and Notice. The requesting
21 Respondent must deliver or mail the request for hearing to Docket Control, Arizona Corporation
22 Commission, 1200 West Washington, Phoenix, Arizona 85007. Filing instructions may be obtained
23 from Docket Control by calling (602) 542-3477 or on the Commission's Internet website at
24 <http://www.azcc.gov/hearing>.

25 If a request for hearing is timely made, the Commission shall schedule a hearing to begin 10
26 to 30 days from the receipt of the request unless otherwise provided by law, stipulated by the parties,

1 or ordered by the Commission. **Unless otherwise ordered by the Commission, this Temporary**
2 **Order shall remain effective from the date a hearing is requested until a decision is entered.**

3 After a hearing, the Commission may vacate, modify, or make permanent this Temporary Order,
4 with written findings of fact and conclusions of law. A permanent Order may include ordering
5 restitution, assessing administrative penalties, or other action.

6 If a request for hearing is not timely made, the Division will request that the Commission
7 make permanent this Temporary Order, with written findings of fact and conclusions of law, which
8 may include ordering restitution, assessing administrative penalties, or other relief.

9 Persons with a disability may request a reasonable accommodation such as a sign language
10 interpreter, as well as request this document in an alternative format, by contacting Carolyn D.
11 Buck, ADA Coordinator, voice phone number (602) 542-3931, e-mail cdbuck@azcc.gov.
12 Requests should be made as early as possible to allow time to arrange the accommodation.

13 X.

14 ANSWER REQUIREMENT

15 Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting
16 Respondent must deliver or mail an Answer to this Temporary Order and Notice to Docket
17 Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within
18 30 calendar days after the date of service of this Temporary Order and Notice. Filing instructions
19 may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet
20 web site at <http://www.azcc.gov/hearing>.

21 Additionally, the answering Respondent must serve the Answer upon the Division.
22 Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-
23 delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix,
24 Arizona, 85007, addressed to Chris Nichols.

25 The Answer shall contain an admission or denial of each allegation in this Temporary
26 Order and Notice and the original signature of the answering respondent or the respondent's

1 attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial
2 of an allegation. An allegation not denied shall be considered admitted.

3 When the answering Respondent intends in good faith to deny only a part or a qualification
4 of an allegation, the Respondent shall specify that part or qualification of the allegation and shall
5 admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

6 The officer presiding over the hearing may grant relief from the requirement to file an
7 Answer for good cause shown.

8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION, this 31st day of
9 December, 2020.

10 /s/ Wendy Coy

11 Wendy Coy
12 Assistant Director of Securities
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